Headquarters U.S. Air Force

Integrity - Service - Excellence

State of Air Force Housing Privatization

U.S. AIR FORCE

Robert M. Moore
AF/ILEHM
10 Feb 04

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Overview

- Past and Present
- Awarded Projects
- Process Improvements
- Communication
- Issues
- On the Horizon
- Summary

Housing Privatization On Everyone's Agenda

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OSD Goal 2010 ➡ 2007

OSD - "Air Force not meeting 2007 goal"

Installation CCs

Private Industry

FHMP

Congress - "GOQ Privatization"

CSAF/OSD Reporting

CSAF - "Revisit Severability"

DOD IG AFAA

BAH Rates

Dorm Privatization

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Past Issues Impacting Our Processes

- MHPI Legislation 1996
- Lackland – August 1998
  - Utility payment issues
- Severability
- Congressman Hobson Issues
  - No Loan Guarantees
  - Discussions during the notification period
  - No Town Hall meetings
- Scored Cost vs No Scored Cost
- HMA vs HRMA vs Phase II Projects
- Fire and Police Reimbursement
- OMB Risk and Recovery Rates
- 30 days vs 45 days vs 14 days for Funds Transfer

"WE'VE COME A LONG WAY…THE PROGRAM IS CONTINUOUSLY CHANGING"

Air Force Sources of Housing

- **Local community housing first**
- **Privatization**
- **Military Construction (MILCON)**
- **Operations and Maintenance (O&M) Funding to maintain existing housing**

Kirtland AFB Housing

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WAS

WILL BE

Air Force Secretariat's Fix

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"We are on-track to award another eight projects in the next 12 months. Looking at 2005 and beyond, we are targeting an end-state of privatizing 60 percent of the US-based housing inventory."

- Honorable Nelson Gibbs

Assistant Secretary of the Air Force for Installations, Environment, and Logistics

(HAC MILCON Subcommittee, Mar 03)

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Acceleration is the key
The " 8 in 12"

- ***Kirtland – Transaction Closed***
- ***Patrick AFB, FL – Transaction Closed***
- **Hickam AFB, HI – Developer selected**
- **Little Rock AFB, AR – Developer selected**
- **Buckley AFB, CO – Developer selected**
- **Moody AFB, GA – Developer selected**
- **Beale AFB, CA – In source selection**
- **Shaw AFB, SC – In source selection**

Acceleration is the key
The " 8 in 12 Plus 4"

- **Hanscom AFB, MA – Developer selected**
- **Hill AFB, UT – In source selection**
- **Offutt AFB, NE – In source selection**
- **Cannon AFB, NM – In source selection**

This is a political and financial process as much as a construction process

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Awarded Privatization Projects

Lackland AFB, Tx
420 Units Status: Complete

Robins AFB, Ga
670 Units Status: Complete

Elmendorf AFB, AK
828 Units Status: Complete

Dyess AFB, Tx
402 Units Status: Complete

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Awarded Privatization Projects

Wright-Patterson AFB, OH

1536 Units Status

Patrick AFB, FL

552 Units Status: Started 1 Oct 03

Total Houses Privatized: 5486

Kirtland AFB

1078 Units Status: Started: In progress

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What Families and Leaders are Talking About

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What Residents are Saying

"***New housing is a force multiplier***"
Command CMSgt, Dyess AFB

"***Takes a lot off my plate, brought us quality housing in no time, don't know how many years it would have taken with MILCON***"
Wing/CC, Elmendorf AFB, AK

"***This is the best kitchen I've ever had***"
Spouse, Robins AFB, GA

"***They come out immediately to fix things…it***"
Spouse, Dyess AFB, TX

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Process Improvements

- Release of Scored Cost
  - Offutt, Beale, Cannon, Shaw
- Release of Loan Parameters
  - Nellis
  - All others
- OSD Tabletops
- Elimination of Severability Issue
- GOQs and Historics
- Surplus Housing Policy

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Communication Improvements

- H-Grams
- Myths and Tips
- PMR
- BOD
- PHMA
- NAHB
- PSC Summit
- ESG Involvement
- Executive Offsites
- Congressional Briefings
- Housing Privatization Promotional Video

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Housing Privatization "Tips vs. Myths"

- **"When can civilians 'off the street' occupy privatized housing?"**
- **Civilians are at the bottom of the priority list**
- **Housing assignment "Waterfall" for other eligibles:**
  - **Other Active duty military family/unaccompanied military**
  - **Federal Civil Service employees**
  - **Retired military members**
  - **Guard/Reserve members**
  - **Retired Civil Service**
  - **DoD Contractor's/Permanent employees (US citizens)**
  - **General Public**

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Housing Privatization "Tips vs. Myths"

- **How the "Waterfall" is working at Robins AFB:**
  - **98% of the units occupied**
  - **180 non-target tenants from the "Waterfall"**
    - **51 E-1 to E-4 families**
    - **37 Unaccompanied**
    - **13 DoD Civilians**
    - **3 Retirees**
    - **62 ANG members (under a lodging lease)**
    - **14 General public**
- **Waterfall tenants limited to one-year lease**
  - **Situation may change at the base and you want flexibility to open houses back up for your families**

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Housing Privatization "Tips vs. Myths"

- **"How are utilities paid?"**
  - **Rent equals BAH minus an amount to cover 110% of estimated average utility charges for a designated unit**
  - **Houses will be metered for electricity and natural gas**
  - **Members will be responsible to pay their own electric and natural gas bills either to the developer or supplier**
  - **Water, sewer, and trash are provided at no cost**
- **Could a resident have out of pocket expenses?"**
  - **Yes, it's possible… if they exceed the "110% allowance"**
  - **If they use less than the allowance, they pocket the difference**
- **Mock utility bills before privatization could help residents understand their consumption patterns**

- 104,000 attendees
- 3rd year with a booth
- Over 1200 recorded contacts
- Great interest from builders, bankers,

United
Housing
Government and private sector
All Military Housing units are being revitalized by the Air Force through a combination of traditional military construction and privatization.
Projects succeed because of a long-term commitment between the Government and the private developer.
The most innovative debt structuring provides the best value development for the government.

United States Air Force
Housing Privatization
Government and private sector unite to build quality homes for military families.
Privatized Housing for Air Force Families
Now Seeking Developers Financial Partners Management

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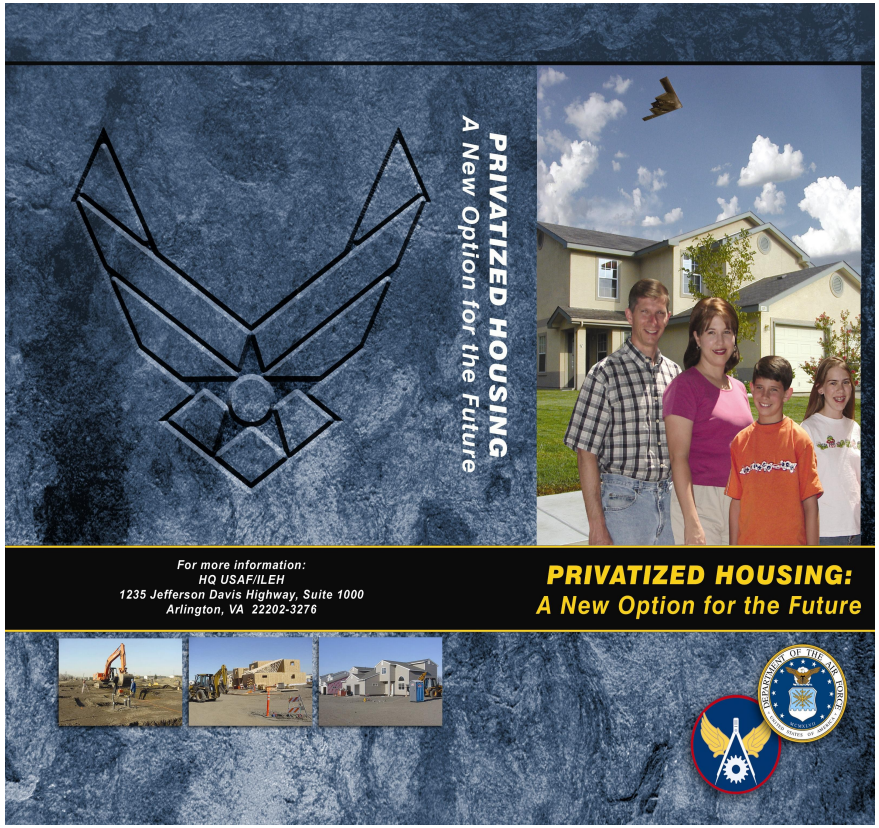
Housing Privatization Promotional Video

- Privatized housing from the occupants' perspective
- Elmendorf, Dyess, Robbins
- Interview with Bob Vila, ***Host Bob Vila's Home Again***
- 16 minutes
- CD for computer viewing
- ECD May



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Issues Pending

- Financial Pool of Lenders
- Generic RFP Changes
- Grouping
- Ground Rent

How Well are We Doing?

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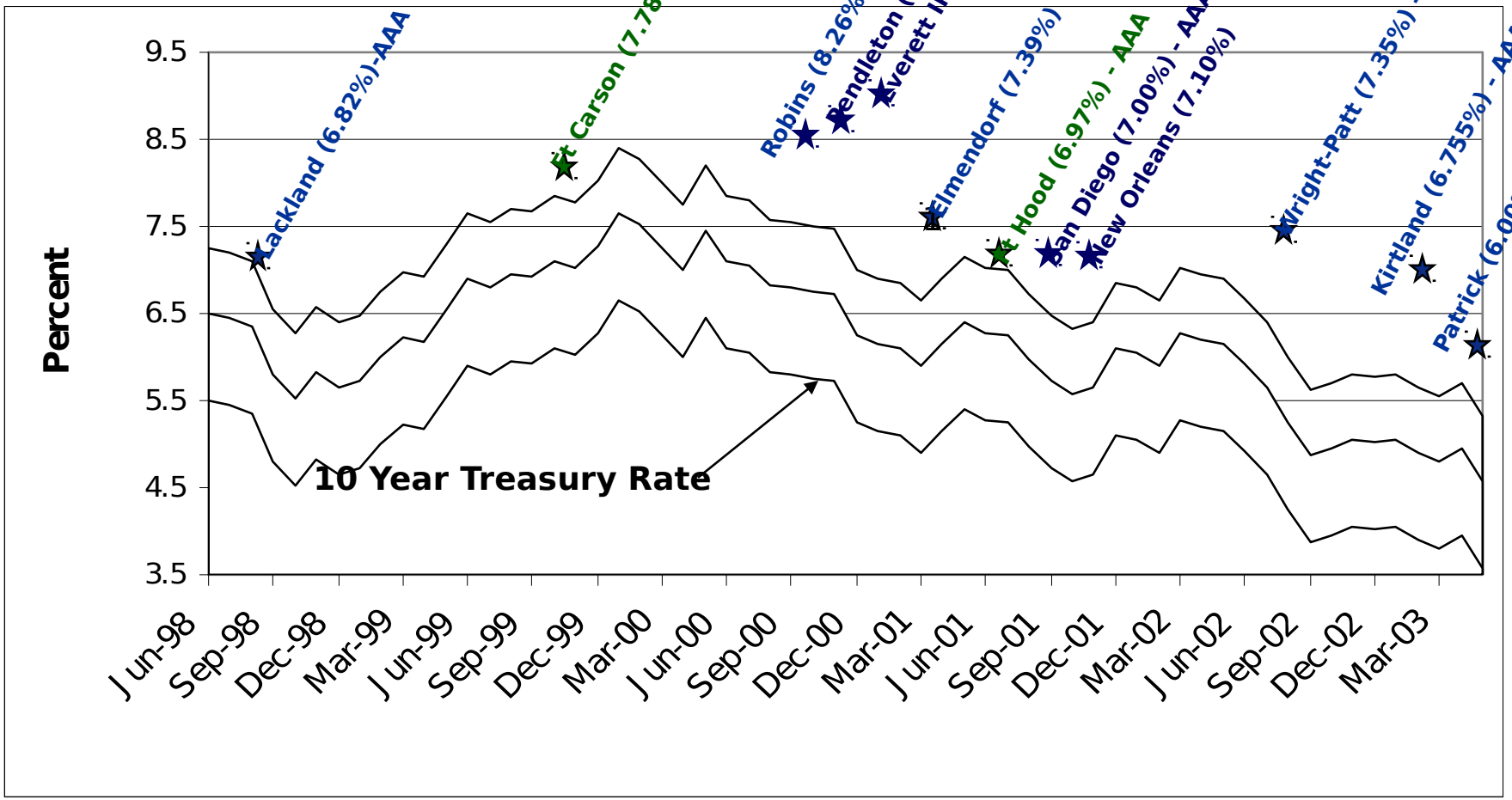

Spread Range: AAA to BBB (100 to 175 bps over 10 Yr Treasury)

Source: OSD PEP Report

Project "Grouping" in Privatized Housing

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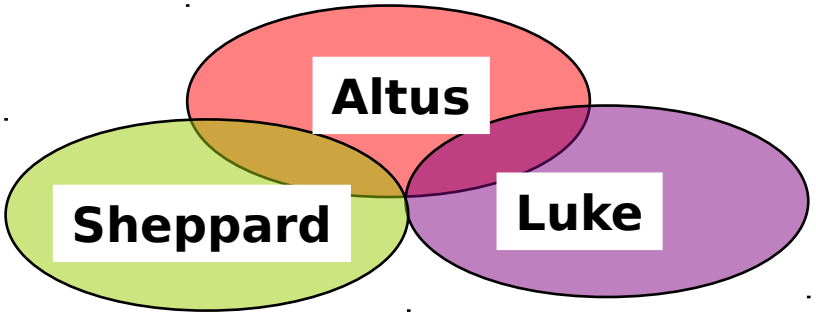
Discussion:



- Projects combined in the financial sense, but operationally separate
- McGuire/Ft Dix and Eglin/Hurlburt
- AETC: combine 11 bases in 3 groups
  - Group 1 concept brief 18 Jan 04
- Advantages and Disadvantages

Advantages	Disadvantages
Equitable distribution of amenities	Projects cross state lines
All AETC bases privatized by 2006	Industry concerns with project size
Balances "cash-rich" bases and risk	Resistance from "cash-rich" to sharing

Recommendation: Review grouping of rich and poor projects for feasibility

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On the Horizon

- BRAC
- Project Cost Exceeds Scored Amount
- More Privatization
  - Dorms
- Portfolio Management
  - Asset Management Training
- AFI 6007

Questions?

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BACKUP SLIDES

Housing Privatization Study

Discussion

- **"Are we on the right track?"-- these are 50-year deals!**
- **Study Team members:**
  - Russ Powers , Col, USAF, ret.
  - Jim Finch, CMSAF, ret.
  - Bill Milligan, CMSgt, ret.
  - Dawn Hemming-Rich, CMSgt, ret.
- **Team visited OSD, Army, Navy, USMC, Air Staff, MAJCOMs, installations, and developers**
  - Interviewed residents, CCMs, 1st Sgts, policy makers, CCs, action officers, financiers, and builders
- **Report provides recommendations to improve privatization process and products – result should be better housing!**

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Privatization Study Recommendations

- **Privatization is just <u>one</u> option for family housing**
- **Establish single standard for grades or grade groups**
- **Pay BAH to <u>all</u> members; charge rent for MFH**
- **Use market-based rent, rather than BAH-restricted rents**
- **Market the HP program: educate leaders, residents, etc.**
- **Streamline project acquisition**
- **Improve sharing of lessons learned**
- **Build to local standards and expectations of residents;**
- **Improve transition to PH & property management**

<u>Recommendation:</u> None; SAF/IEI & AF/ILE reviewing report, developing the way ahead. Report back periodically.

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Air Force Housing Privatization Goal

Accelerate our ability to eliminate inadequate housing units and provide military families access to safe, quality, affordable, well-maintained housing in a community where they will CHOOSE to live

Elmendorf AFB, AK
828 Units Status: Complete

Robins AFB, GA
670 Units Status : Complete

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The Standard Approach

- Non-FAR Real Estate Transaction
- 50 Year Ground Lease of Existing Housing Area
- Deed or Bill of Sale of the Existing Improvements

Patrick AFB, FL

552 Units Status: Started 1 Oct 03

- Gov't May Provide Loan and/or Limited Loan Guarantee
- Basic Allowance for Housing (BAH) Paid to Member
- Member's Rent =BAH minus Average Utility Costs
- Member Pays Rent by Allotment
- Member Pays Utilities to Developer or Other Provider
- Member not required to live there
- If not 95% occupied by military, then others permitted to rent

Requirements To Privatize

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Privatization projects criter

- **3:1 Leverage**
- **Max of 80% Gov Participatio**
- **Government Loan < Private**
- **Privatization lifecycle < MIL**

Wright-Patterson AFB, OH
1536 Units Status: In Progress

Lackland AFB, Tx
420 Units Status: Complete

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AF Evaluation Process

- **Two-step Solicitation and Evaluation**
  - **Integrated, “Best Value” assessment against RFP factors**
- **Step 1 offerors evaluated on qualifications, past performance and initial concept proposal**
  - **No more than 5 Offerors are “down-selected” to move to Step 2**
- **Step 2 Source Selection Team evaluates offerors detailed proposal**
- **The selection authority chooses offeror providing “Best Value”**
  - **SAF/IEI concurs selection**
- **RFP identifies minimums & AF’s desired features**

Housing Privatization Projects: The "8 in 12" Status

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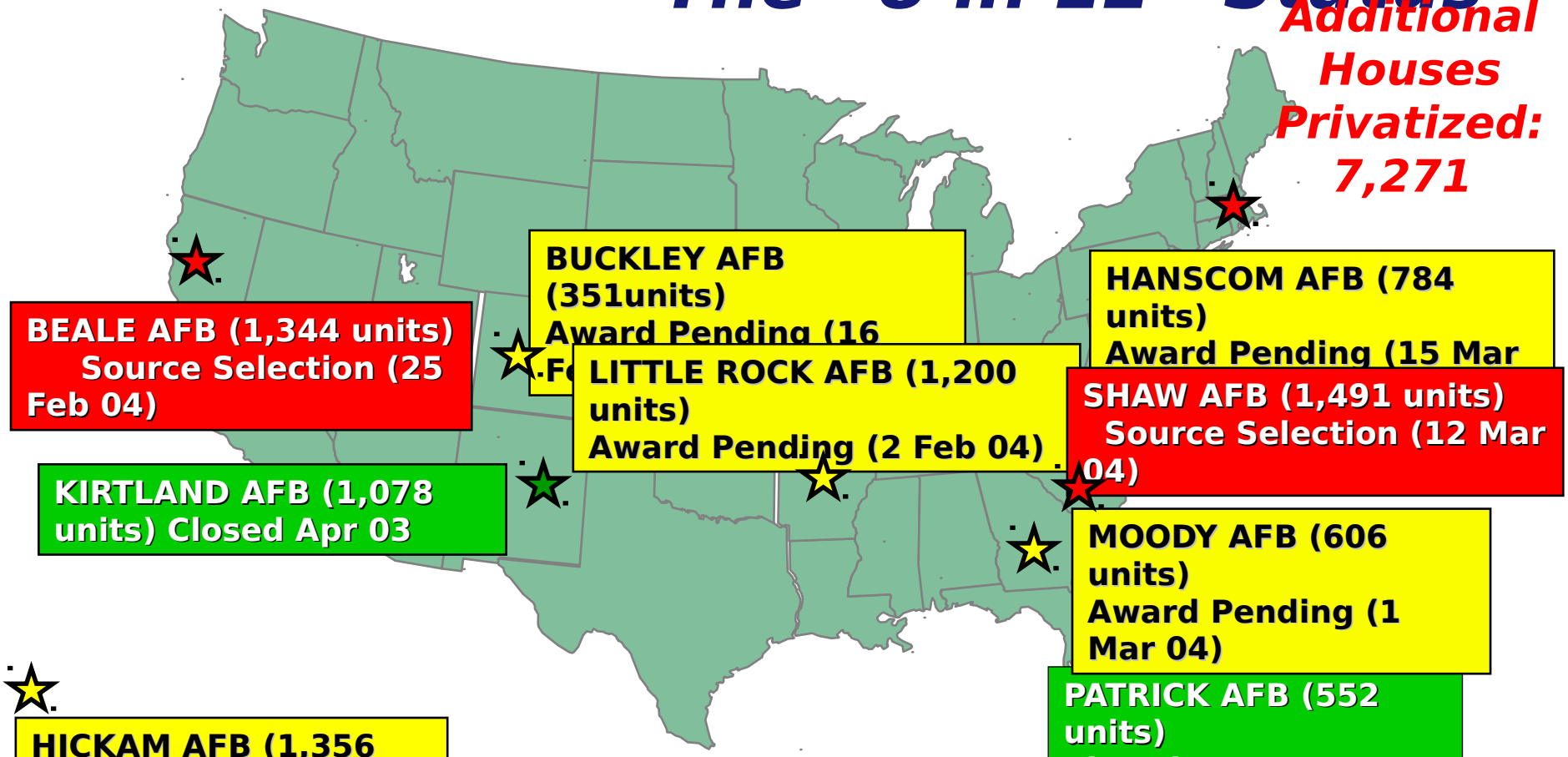
Additional Houses Privatized: 7,271
BUCKLEY AFB (351units) Award Pending (16
HANSCOM AFB (784 units) Award Pending (15 Mar
BEALE AFB (1,344 units) Source Selection (25 Feb 04)
LITTLE ROCK AFB (1,200 units) Award Pending (2 Feb 04)
SHAW AFB (1,491 units) Source Selection (12 Mar 04)
KIRTLAND AFB (1,078 units) Closed Apr 03
MOODY AFB (606 units) Award Pending (1 Mar 04)
PATRICK AFB (552 units) Closed Oct 03
HICKAM AFB (1,356 units) Award Pending (1 Mar 04)

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Starting in March 2004: The Rest of the Identified Projects

	BASE
1.	Hill AFB, UT
2.	Cannon AFB, NM
3.	Shaw AFB, SC
4.	Offutt AFB. NE
5.	Elmendorf AFB II, AK
6.	Langley AFB, VA
7.	Nellis AFB, NV
8.	Eglin/Hurlburt AFB, FL
9.	Holloman AFB, NM
10.	Dover AFB, DE
11.	Wright-Patterson AFB II, OH
12.	McGuire AFB/Fort Dix, NJ
13.	Altus AFB, OK
14.	Lackland AFB II, TX

	BASE
15.	Sheppard AFB, TX
16.	Luke AFB, AZ
17.	Tinker AFB, OK
18.	Barksdale AFB, LA
19.	Maxwell AFB, AL
20.	FE Warren AFB, WY
21.	McChord AFB, WA
22.	Columbus AFB, MS
23.	Keesler AFB, MS
24.	Scott AFB, IL
25.	Fairchild AFB, WA
26.	Travis AFB, CA
27.	Tyndall AFB, FL
28.	Hickam AFB II, HI

Existing and Future Project Comparisons

	7 Awarded Projects (Dec 03)	9 Planned Awards (Jun 04)
Total # Units Privatized	5,486	10,633
Total # Units Replaced	3,027	4,847
Total # Units Renovated	517	5,667
Total Development Costs ($M)	$583.5	$1,459.5
AF Contribution (Scoring Costs)	$93.4	$77.29
Leverage	6.25:1	23.85:1
Debt (Direct	$190.3	$384.9

Taking a More Active Role in Project Financing

- Financial Sub-committee formed to investigate and improve private sector financing terms and rates through various "outside-the-box" concepts including:
  - Hire a financial consultant to work with lenders
  - Bifurcate the process allowing AF to choose lender and developer in separate selection processes
  - Identify a "stable of lenders" who are knowledgeable in HP
  - Require the developer to present financing letters from multiple lenders and provide the AF a comparison
  - Provide education for the financial community on HP
- Jones Lang Lasalle hired to bring concept to executable state
  - Resulting process will be a hybrid of bifurcation, "stable of lenders", and the requirement for multiple lenders
  - Lender education will be an AF continuing effort
  - Proposed documents and implementation plan due mid-Dec

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General Jumper to SASC

“Senator (Dole), we have quite a few bases that are in fairly remote locations, and we have about 38 projects planned that will address about 40,000 family housing units. I believe we're the only service that doesn't get finished by the Secretary of Defense's goal of 2007, but that mostly has to do with northern tier bases where we'd have to displace people. We just can't do the shell game fast enough to fulfill the requirement. But we are pushing full speed ahead as quickly as we can”.

- Gen Jumper to SASC

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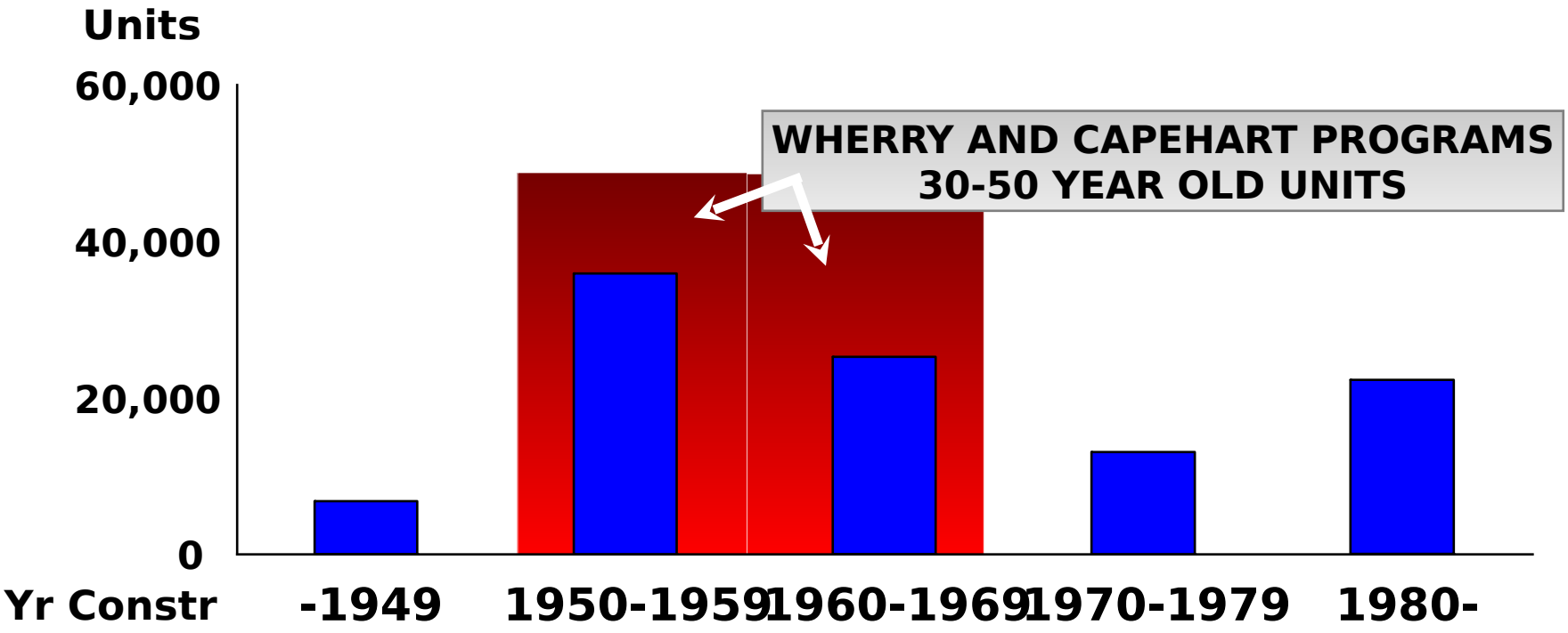
Family Housing Age of Inventory



59,000 Inadequate Units (beginning FY02)
46,000 Inadequate Units (beginning FY03)
40,000 Inadequate Units (beginning FY04)

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Surplus Housing Strategy
Inadequate Units

- HRMAs indicate AF will have ~ 19,000 surplus units
  - Must dispose of surplus inadequate units by 2007
- Bases, contractors developing local disposal plans:
  - Neighborhoods/units, condition, location, size, community environment
  - Factor in 801 lease and privatized housing commitments
- Use most appropriate method for disposal:
  - Permanent conversion to a non-MFH requirement
  - Privatization; demolition (O&M/MILCON); donate/transfer to a recognized entity (HUD, Indian Tribe, etc.)
- Minimize impact on families and the budget
  - Vacate through attrition
  - Minimal maintenance $ until disposal

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Surplus Housing Strategy
Exception For Adequate Units

- **Retain surplus adequate housing if base passes the "occupancy test" -- 97% over previous three FYs**
  - **Units must have economic life remaining**
- **Only minimum funding provided for surplus units**
  - **Health, safety, and Change of Occupancy Maintenance**
  - **No programmed RPMC or MILCON**
- **Develop plan to dispose of housing as it comes to the end of economic life; defined to be earliest of:**
  - **50 years from construction**
  - **25 years since last whole house improvement, or**
  - **When RPMC level investment is required**
- **All surplus units tracked through ACES-HM metrics**

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Housing Requirements Occupancy Concerns

- **BAH increases making community housing more affordable**
- **Occupancy data confirmed need to reassess requirements**
  - **8,081 unoccupied units--ready but no[illegible] move in**
    - **44 bases have < 50**
    - **15 bases have 50 > 100**
    - **24 bases have > 100**

- **Implementing new HRMA process AF-wide**

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Military Family Housing Solution

- Rely on local community
  - Maximum extent possible
  - Use BAH
  - Cohen Initiative
- Housing Privatization
  - Use BAH: Spread costs over 50 Years
  - Reduce need for current MILCON costs
  - @ 30 installations thru 2008
  - Expect more installations in the future
- MILCON
  - When cost is cheaper

Housing Privatization "Tips vs. Myths"

- **Schools and Impact Aid - no change anticipated, status quo should prevail**
  - **Unique situations will be studied**
  - **District and bus routes should not change**
- **CDC rates - are same on or off-base, all include BAH**
- **Food stamp eligibility - some members may lose eligibility based on higher income (BAH on LES)**
  - **Working with AF/DP entitlements and Dept of Agriculture; family subsistence supplemental allowance impact**
- **School lunch eligibility - 15 May 02 approval to remove BAH from eligibility for lunch programs received**

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Congressional Concerns

- **“Mr. Secretary, the Army, I think, has done a fantastic job in this area. And I want to praise the Army publicly. And I would also say, in my opinion, the worst service has been the Air Force, in terms of not following through on the privatization”.**

  - Congressman Weldon

  (SecDef Testimony to HASC)

- **“You're right, the Air Force is the one service that it appears in the current Forward Year Defense Plan will not get down to our target during that period of '04 to '09”.**

  - Secretary Rumsfeld

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Current Military Family Housing Situation

- **Approximately 40% of our families live on base**
- **104,000 AF family housing units**
  - **Average age is 32 years**
  - **40,000 inadequate**
  - **Cost to fix using MILCON: > $5.6 Billion**
  - **Time to fix: 12 years with current funding and no privatization**

"Non-traditional approach to MFH revitalization is required!"

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"Out of Court" Settlement

- **Agreement between SECAF and Under SECDEF**
  - **Eliminate inadequate housing at US based by 2007 with exception of Grand Forks, Minot, Malmstrom and Mountain-Home**
  - **Eliminate inadequate housing oversees by 2009**
  - **Increase housing funding by $1.15B between 2004-07**
  - **Privatize 60% of CONUS Housing by 2007**
  - **Provide Periodic Updates**
- **Meets 2003 Defense Planning Guidance**

AF/OSD Out of Court Settlement Update
Total AF Inadequate Units

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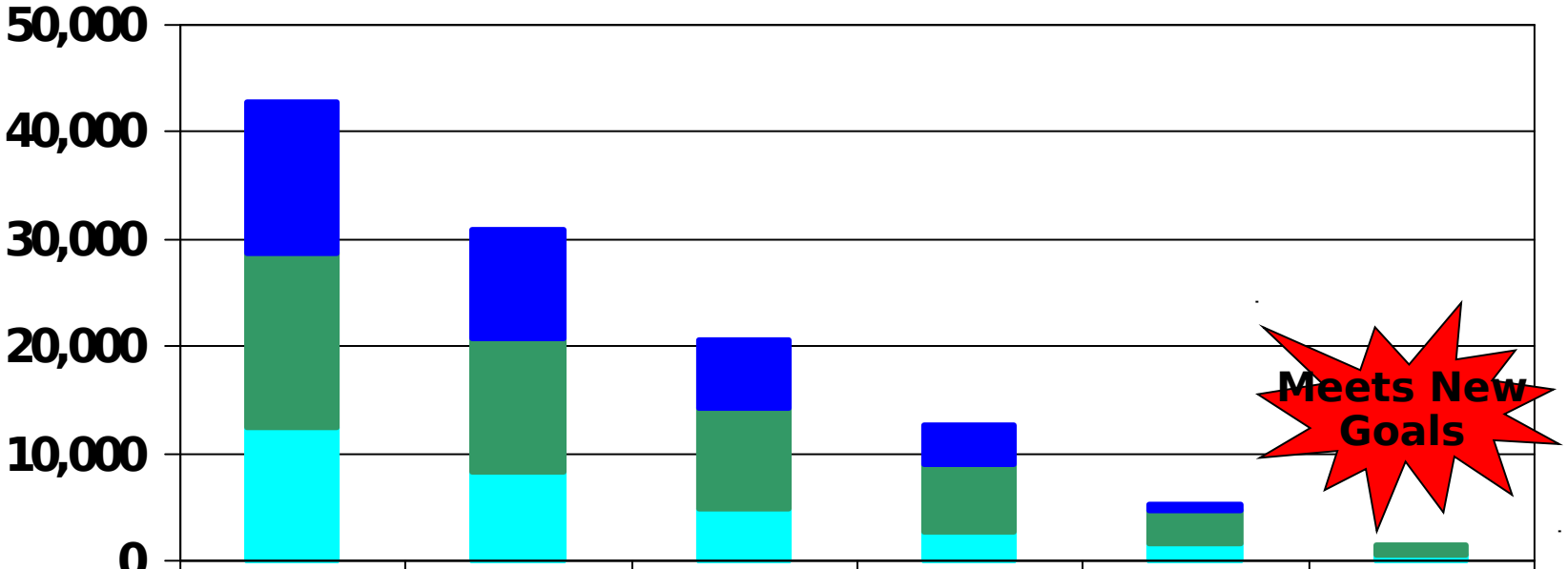
- **Agreement: Eliminate inadequate housing at all bases in the US by 2007, except for 4 northern bases by 2008, and overseas bases by 2009**
- **Chart shows total remaining AF inadequate units each Fiscal Year**



	FY04	FY05	FY06	FY07	FY08	FY09
Disposed	14,168	10,144	6,222	3,516	612	0
Replaced	16,248	12,374	9,395	6,270	3,079	1,041
Improved	12,440	8,349	4,936	2,762	1,582	475

NOTE: This programming data is based on a combination of the 2002 Family Housing Master Plan (FHMP) requirements, and approved Housing Requirements and Market Analysis (HRMA) results. HRMA results at some bases are being finalized. The 2004 FHMP will include all requirements.

AF/OSD Out of Court Settlement Update
U.S. Housing Units Privatized

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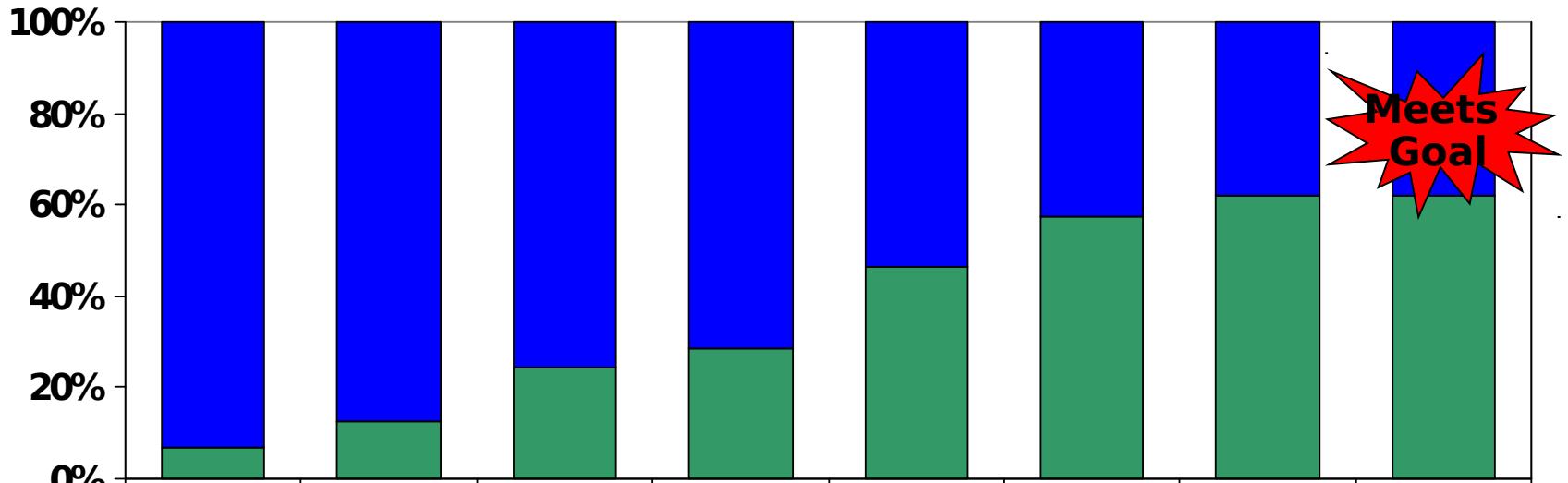
- **Agreement: Increase planned privatization to achieve a notional end state of 60% of the Air Force inventory in the US and its territories**
- **Chart shows cumulative total of Air Force units privatized by Fiscal Year & Percentage**



	FY98-00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
#Gov Owned Units	76,860	72,176	60,360	56,988	37,946	29,072	24,783	24,783
#Units Privatized	5,486	10,481	19,367	22,571	32,855	38,972	40,161	40,161
Total Units	82,346	82,657	79,727	79,559	70,801	68,044	64,944	64,944

NOTE: This programming data is based on a combination of the 2002 Family Housing Master Plan (FHMP) requirements, and approved Housing Requirements and Market Analysis (HRMA) results. HRMA results at some bases are being finalized. The 2004 FHMP will include all requirements.